



# Investment scams past & present

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*“A man’s vanity tells him  
what is honor; a man’s  
conscience what is justice.”*

Walter Savage Landor

# Investment scams past & present

Why this is important

## Why discuss scams and deceptions?

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- They've always been with us
- They're here today
- They'll be here tomorrow
  
- Human nature
  
- Let's at least admit the truth . . . and attempt to mitigate today's deceptions

# Investment scams have always been with us



A New York City swindler tries to cheat a man from the country, 1868.

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A New York City swindler tries to cheat a man from the country, 1868.

**But why?**

**Three** factors must be present for scams/deceptions to continue

**Presence of lions - those who**

- Actively engage in deception
- Lost their moral compass, forgetting that *“ya can’t just make stuff up”*

**Presence of sheep - those who**

- Seek the next get-rich-quick scheme
- Base decisions on past returns (real or imagined)

**Unwillingness to ask 3 simple questions and demand 3 simple answers**

- Why does it exist?
- Why will it work?
- Why are the answers adequate?



- Charles Ponzi - 1920
- The Florida land boom and bust of the 1920s
- Ivar Kreuger (The Match King hoax of 1929/32)
- Ivan Boesky (trading on insider information about future corporate takeovers)
- Bre-X Mining (Michael de Guzman, 1997, fake gold mine)
- Jordan Belfort (the Wolf of Wall Street, classic pump and dump market manipulation)
- Sam Israel - Bayou Hedge Fund Group (1998 deception, false accounting statements)



Y-SIX PAGES.

STOR  
IDEAS

s Letter

Mayor, to-  
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# PONZI PLACED UNDER ARREST

Boston Man Called Advertis-  
ing Catspaw for Interna-  
tional Group.

## RECEIVERSHIP IS ASKED

BOSTON, Aug. 12.—Charles Ponzi, alleged financial wizard, today sur-  
rendered to the United States mar-  
shal and a warrant for his arrest  
is being prepared.

District-Attorney Gallagher said  
Ponzi had surrendered because he  
felt himself unable to carry out  
promises he had made for the re-  
demption of his notes tomorrow.

At the time Ponzi gave himself  
up a hearing was being held before

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## FLORIDA'S EUPHORIA

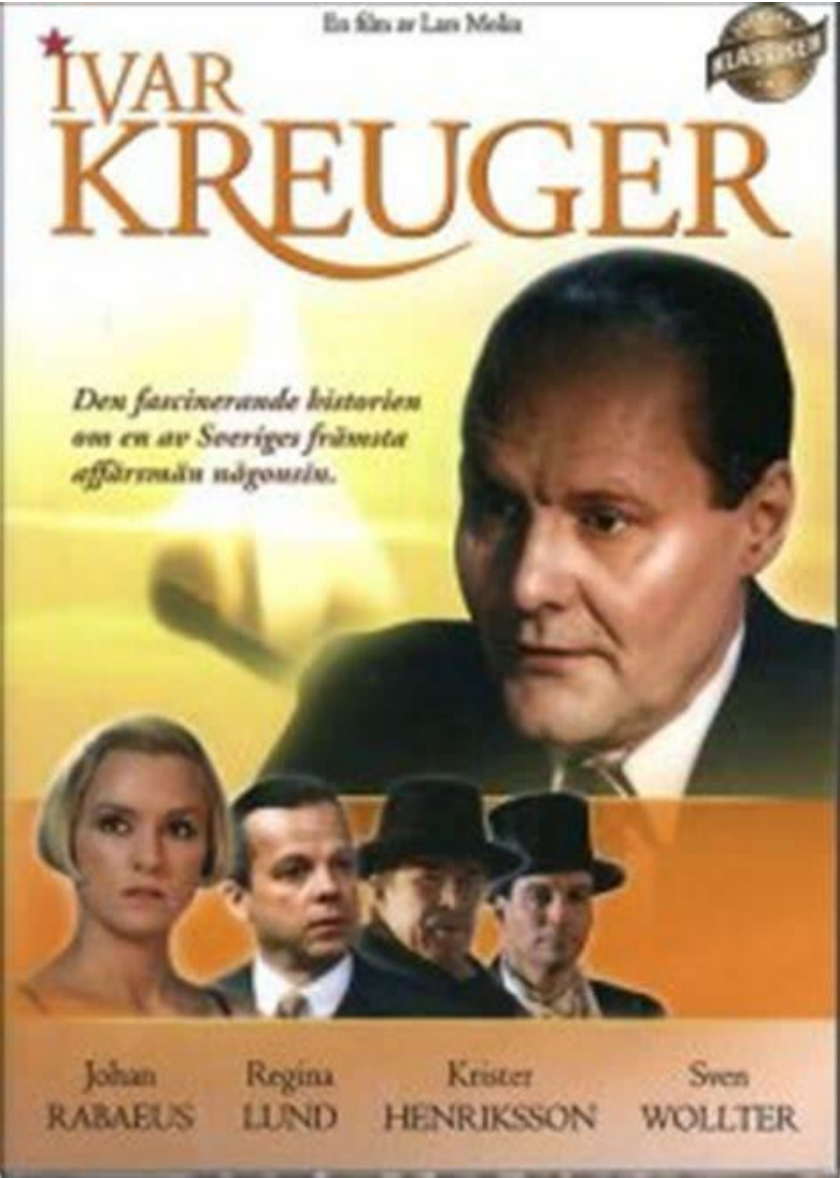
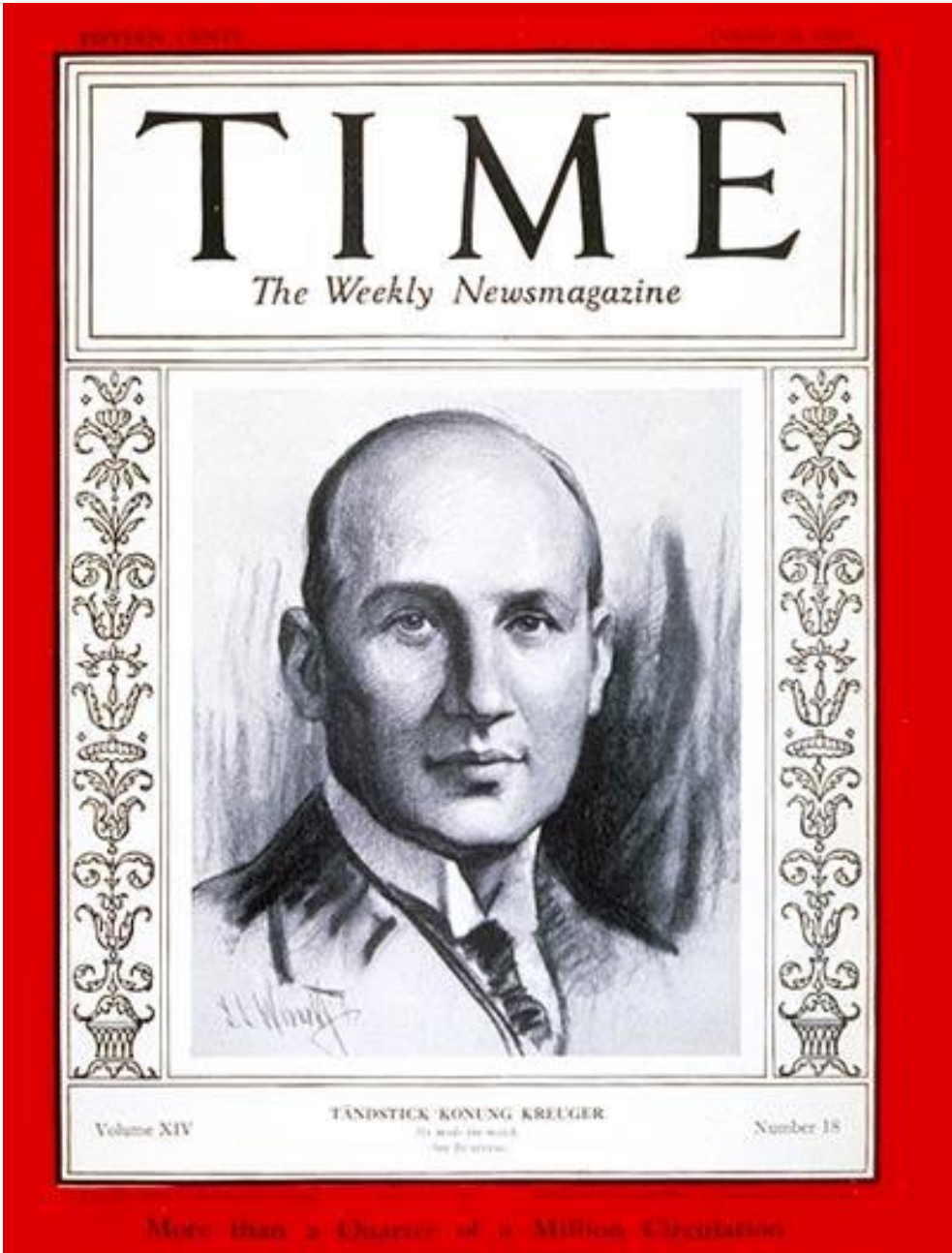
During this boom, most speculators hired young, ambitious men and women to show the land to prospective buyers and accept a "binder" on the sale. A binder was a non-refundable down payment that required the rest of the money to be paid in 30 days.



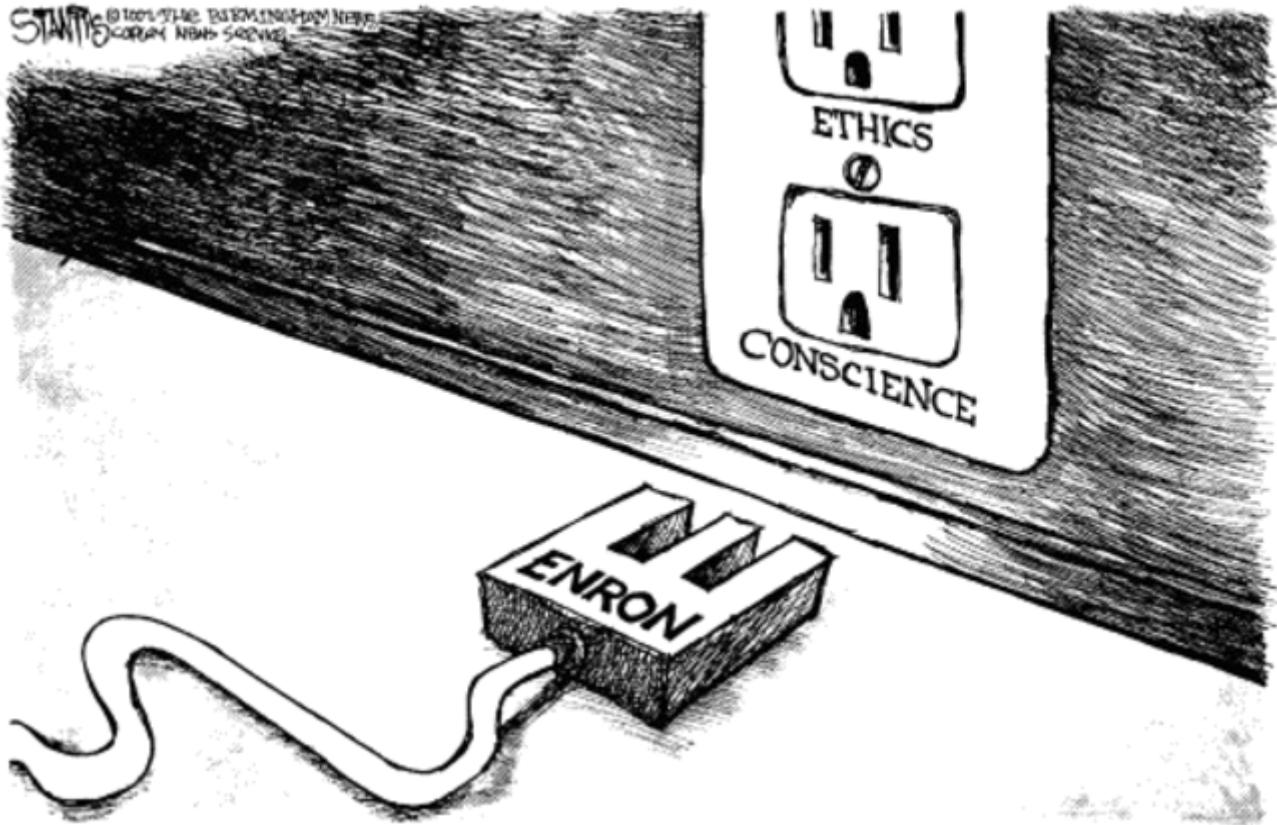
Tampa Bay Hotel grounds in January 1922 - Tampa, Florida



# Ivar Kreuger (The Match King hoax of 1929/32)



- Enron, 7<sup>th</sup> largest U.S. corporation (Kenneth Lay and Jeffrey Skilling, 2001)
- WorldCom (Bernard Ebbers, largest U.S. accounting fraud, \$100 billion loss)
- Tyco International (Dennis Kozlowski and Mark Swartz)
- HealthSouth (Largest U.S. healthcare provider, accounting fraud)
- Bernie Madoff
- Tom Petters (hedge fund scam)
- Allen Stanford (Standard International Bank, fictional client statements, 2009)





# WorldCom (Bernard Ebbers)

stock peaks at \$64.50.

**2001:** WorldCom lays off about 6,000 workers.

**April 2002:** Ebbers resigns as CEO.

**June 2002:** WorldCom announces 17,000 layoffs; stock drops below \$1; SEC files fraud charges after company admits inflating earnings by \$3.8 billion. Investigation later estimates an \$11 billion fraud.



**WORLD COM**

**Jan. 25, 2005:** Ebbers' fraud trial opens.





# Tyco International (Dennis Kozlowski and Mark Swartz)



- One saying comes to mind: *“If it’s too good to be true, it probably is”*
- Any opportunity offering potentially high returns . . . is expected to come with a commensurate higher level of risk . . . . this is one reason why the very high, quick returns offered by Ponzi, should have sent alarm bells ringing
- Experts had warned regulators about the unlikelihood of **Madoff’s** relatively high, steady, long-term returns as long ago as 1999 . . . . sadly, the warnings were not taken seriously



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- One of my NYC foundation clients invested in Madoff. I was their hired investment consultant. Fortunately, I strongly recommended against Madoff in an exhaustive memo to the Foundation’s board. They went ahead anyways, why?

- Hubris

Greed

Herding

- Overconfidence

Need to get-rich-quick

- We want to say that it is the responsibility of the SEC (and other regulators) to keep us safe as investors
- That is so wrong . . . it is our own responsibility to keep ourselves safe
- By falsely claiming that it is the SEC's duty . . . and failing to accept responsibility for our own actions . . . **we guarantee inevitable failure**

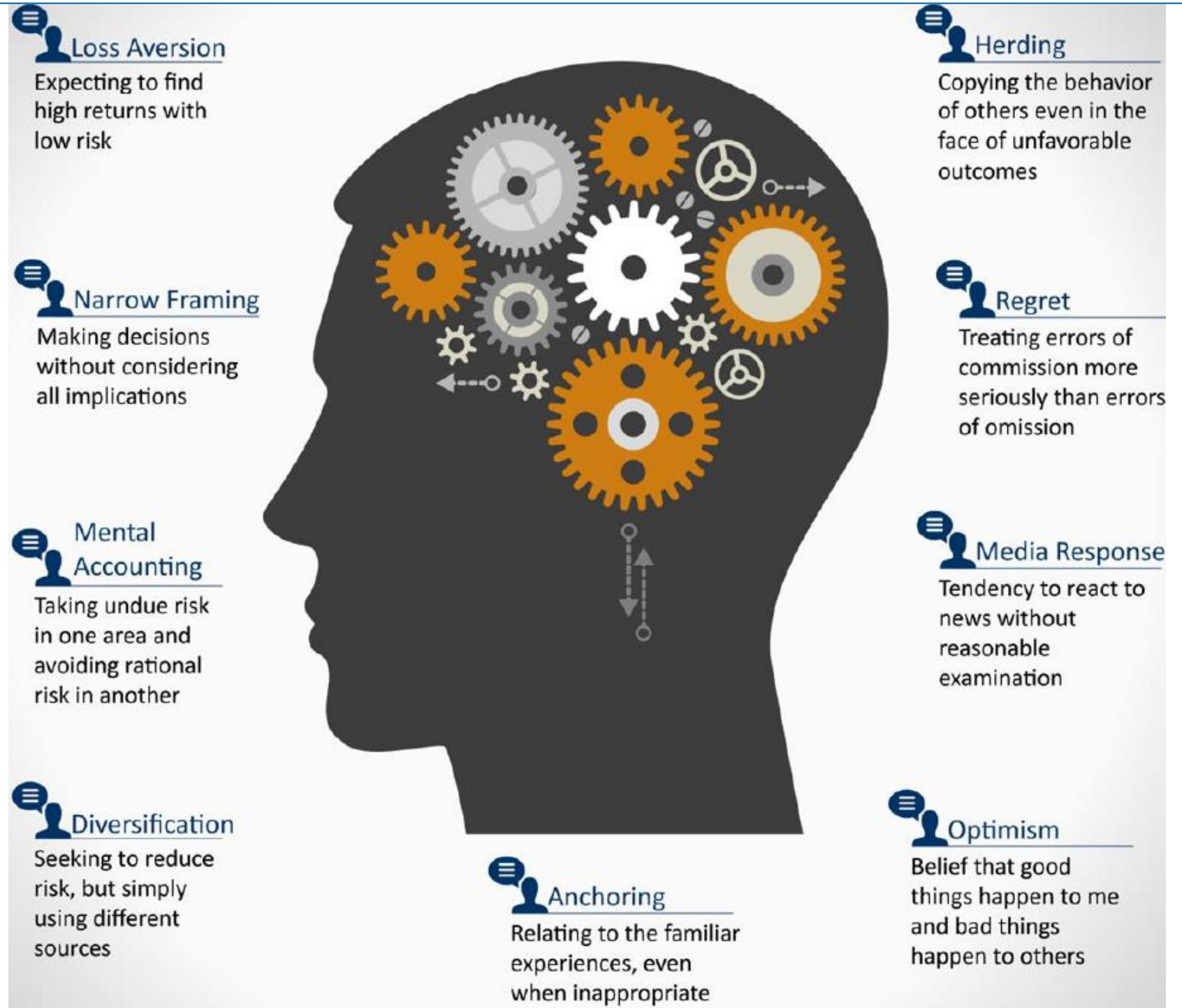
# Why do we fall for scams and deceptions?

Behavioral biases

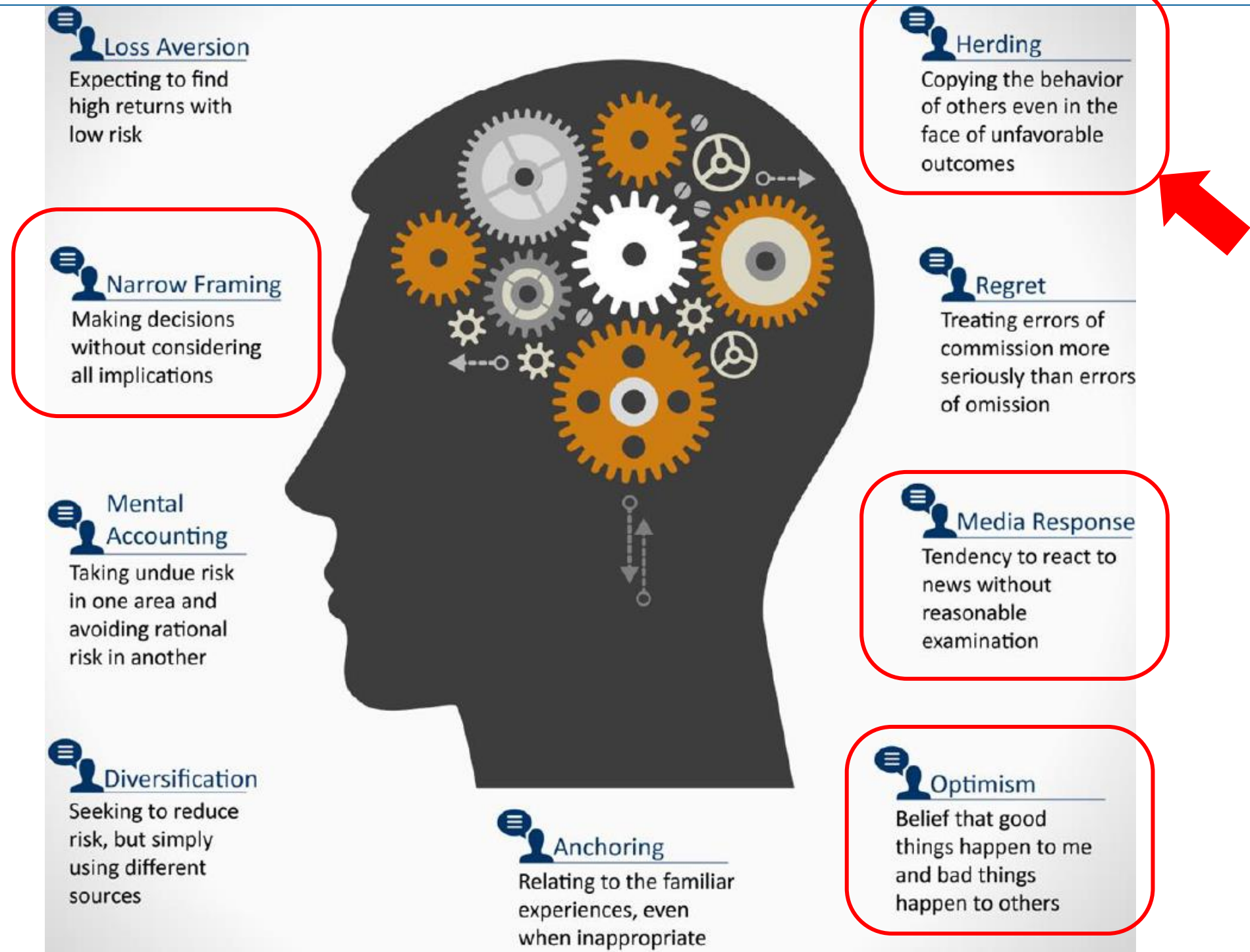
Laziness



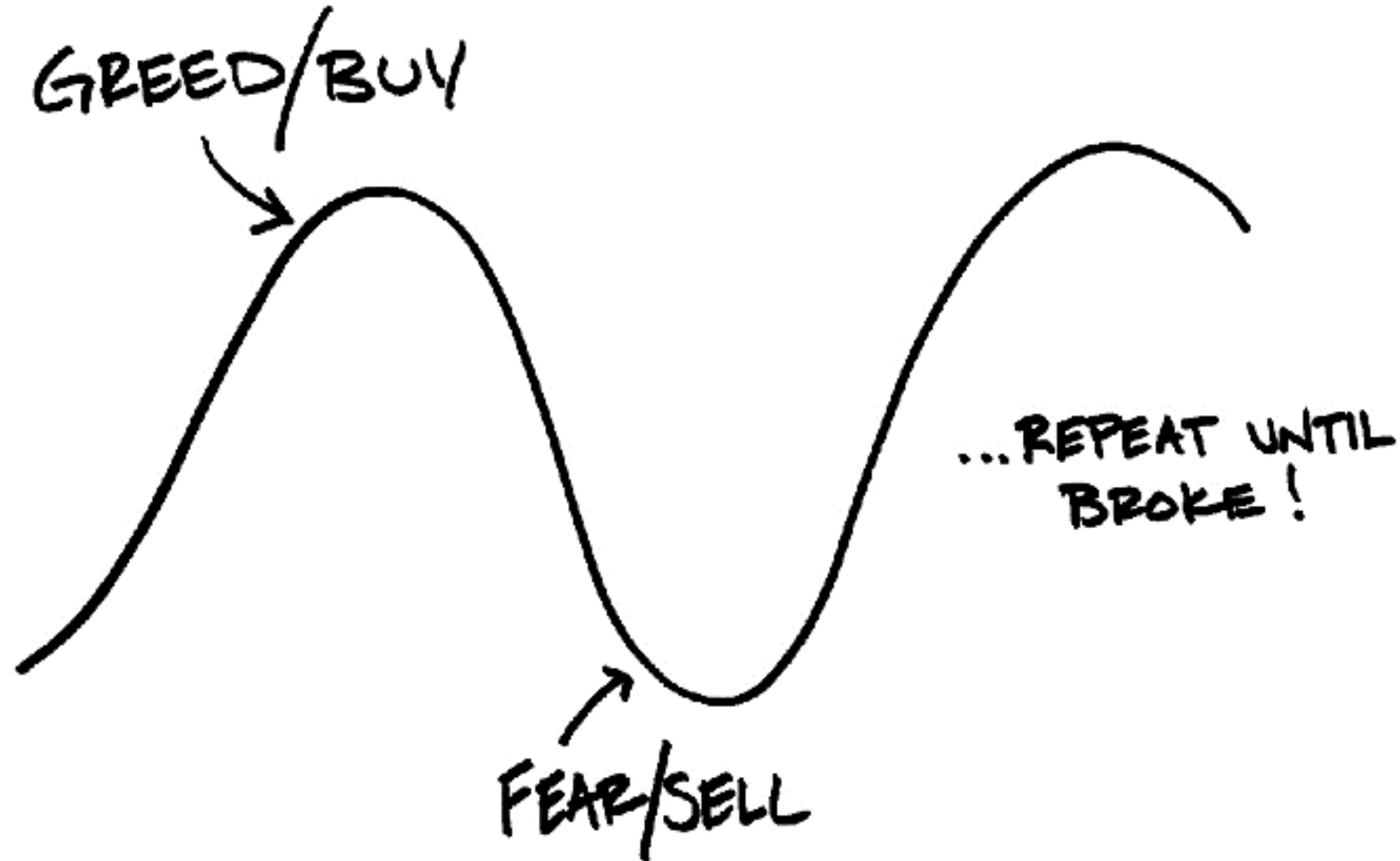
# Nine primary behavioral biases - That cause us to make poor decisions



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Softer drivers - encouraging us to fall for the scams/deceptions





## Next get rich quick scheme - Today's offenses

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- Crypto currencies
- SPACS
- Meme stocks

# Meme stocks



# "It Must End Badly" - Munger Says Market Resembles Dot Com Bubble, Calls SPACs "Shit"



BY TYLER DURDEN

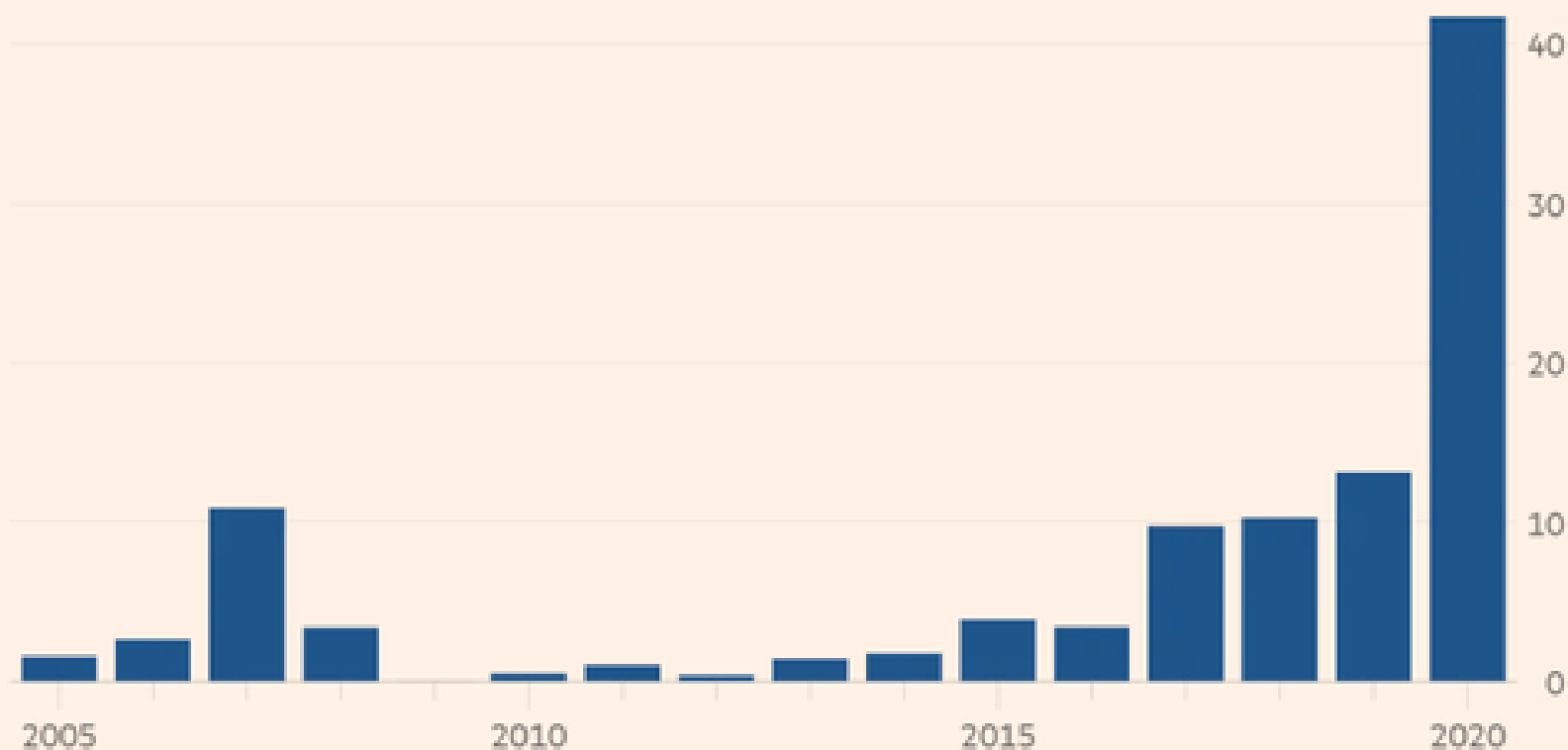
WEDNESDAY, FEB 24, 2021 - 03:29 PM

Warren Buffett's "No. 2" spoke during the annual meeting of the Daily Journal Corporation, the Los Angeles newspaper-publishing company chaired by Munger. The 97-year-old Charlie Munger is best known for his work as Vice Chairman of Berkshire Hathaway, where he has served as Buffett's right hand man for decades. And like Buffett, Munger has a soft spot for newspapers and legacy media companies, and thus took time out of his (busy?) week to answer questions from Daily Journal shareholders in a meeting broadcast live online (watch recording below).

# SPACS started out red hot

## US Spacs zoom to record in banner year

Proceeds raised in special purpose acquisition companies (\$bn)



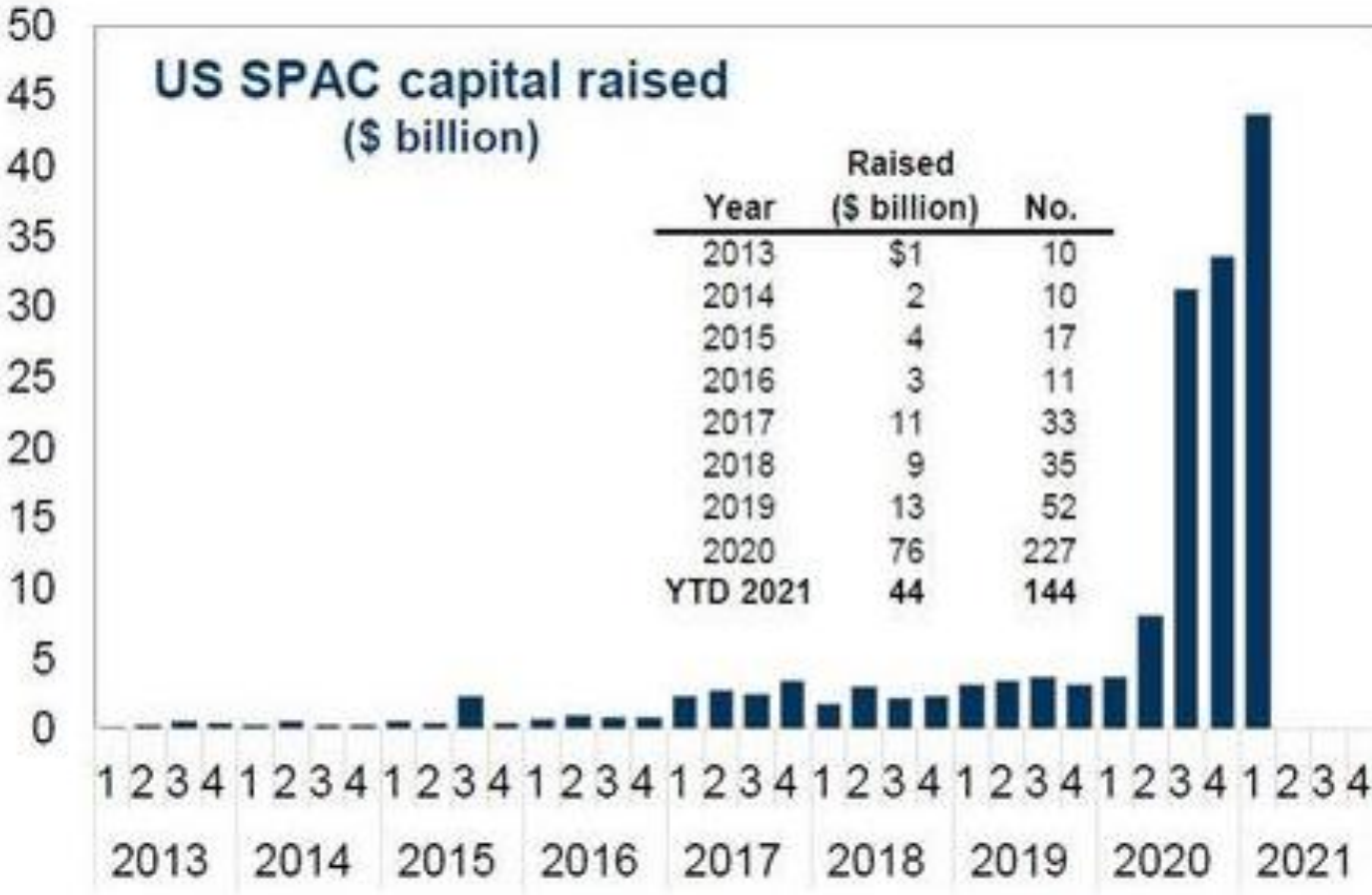
2020 data is year to September 30

Source: Refinitiv

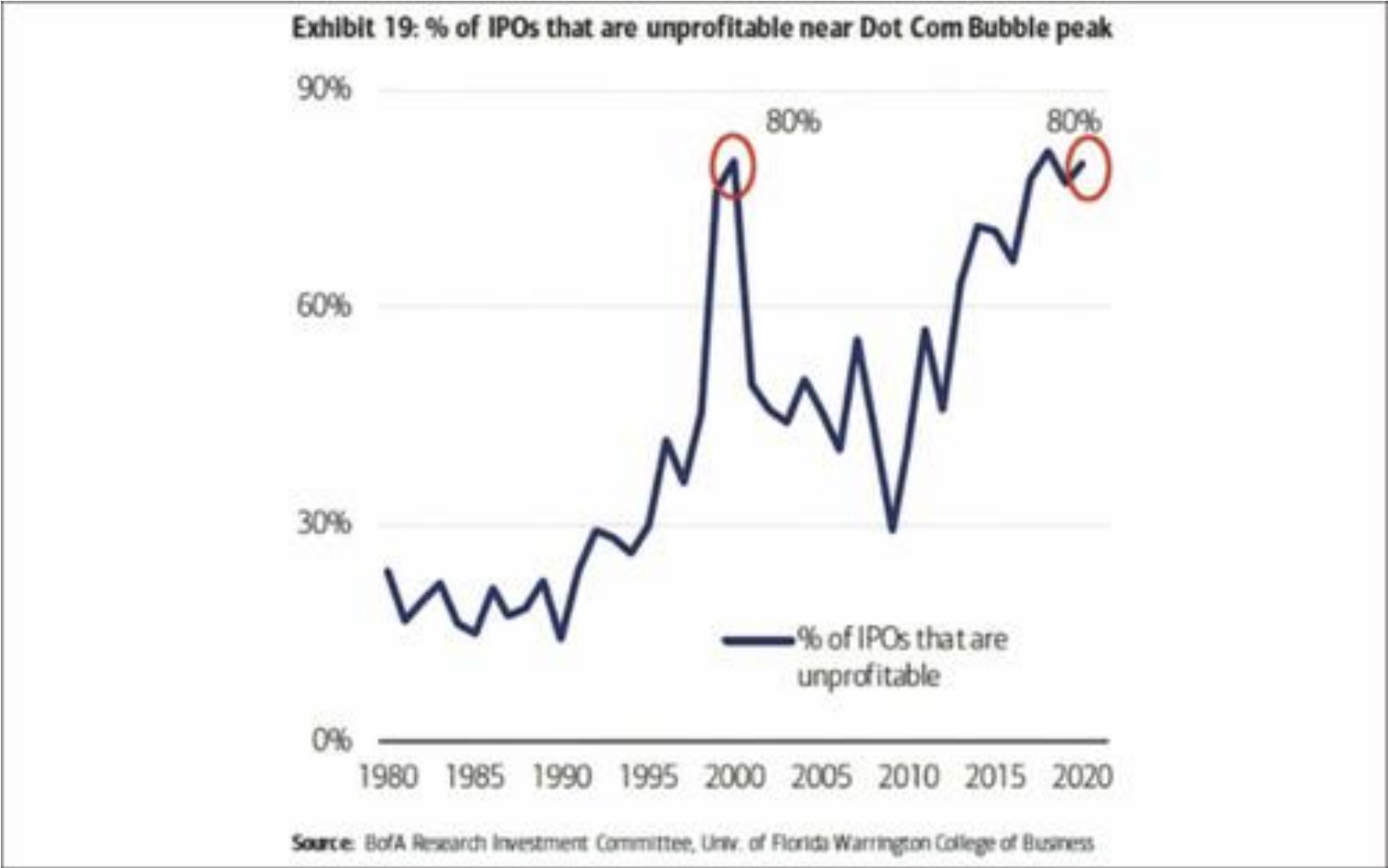
© FT



Exhibit 5: The SPAC boom has continued in early 2021  
as of February 18, 2021



Source: Dealogic, Goldman Sachs Global Investment Research



# Private digital currencies

Crypto crap

- Just think Beanie Babies
- You don't need to think about anything else
- Just keep repeating “Bennie Babies” . . . again and again





# Why are governments so concerned with crypto?

- Loss of monetary policy
- Loss of seigniorage
- Loss of global reserve currency
- Loss of tax revenue
- Support of criminal element
- Loss of threat to foreign nations that misbehave
- Financial stability



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**This is why governments will inevitably make crypto illegal**



# An important distinction, scam vs bubble

Important, different . . . but yet having many similarities



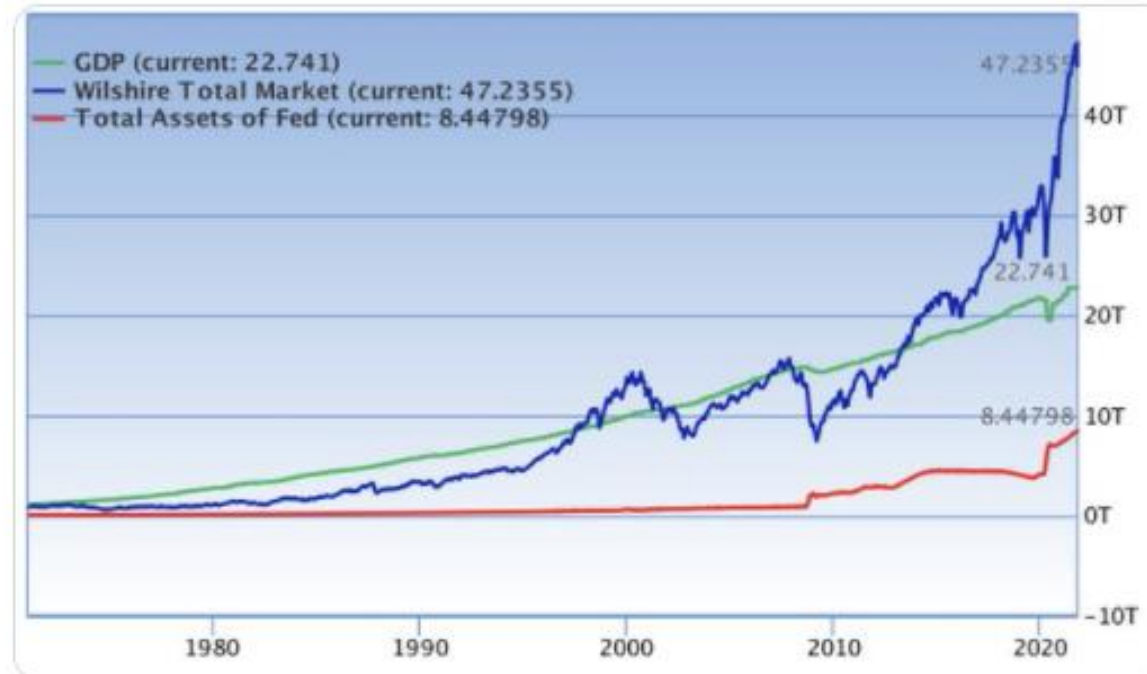
- For Tesla to justify its current valuation . . . it needs to innovate and dominate far far into the future
- In a way that more than matches Amazon
- That's a seriously big ask
- More alarmingly, Tesla is that rare example of a bubble that burst and then reinflated
- Bitcoin is another
- When two such phenomena come along at once . . . the most likely explanation lies in the conditions and psychology surrounding them . . . and not in Tesla and Bitcoin themselves
- This is seriously bad



**Sven Henrich** ✓  
@NorthmanTrader



Highest market valuation ever: \$47.23 trillion.  
Widest disconnect from the economy ever: 207.7% market cap vs GDP.



4:36 AM · Oct 21, 2021



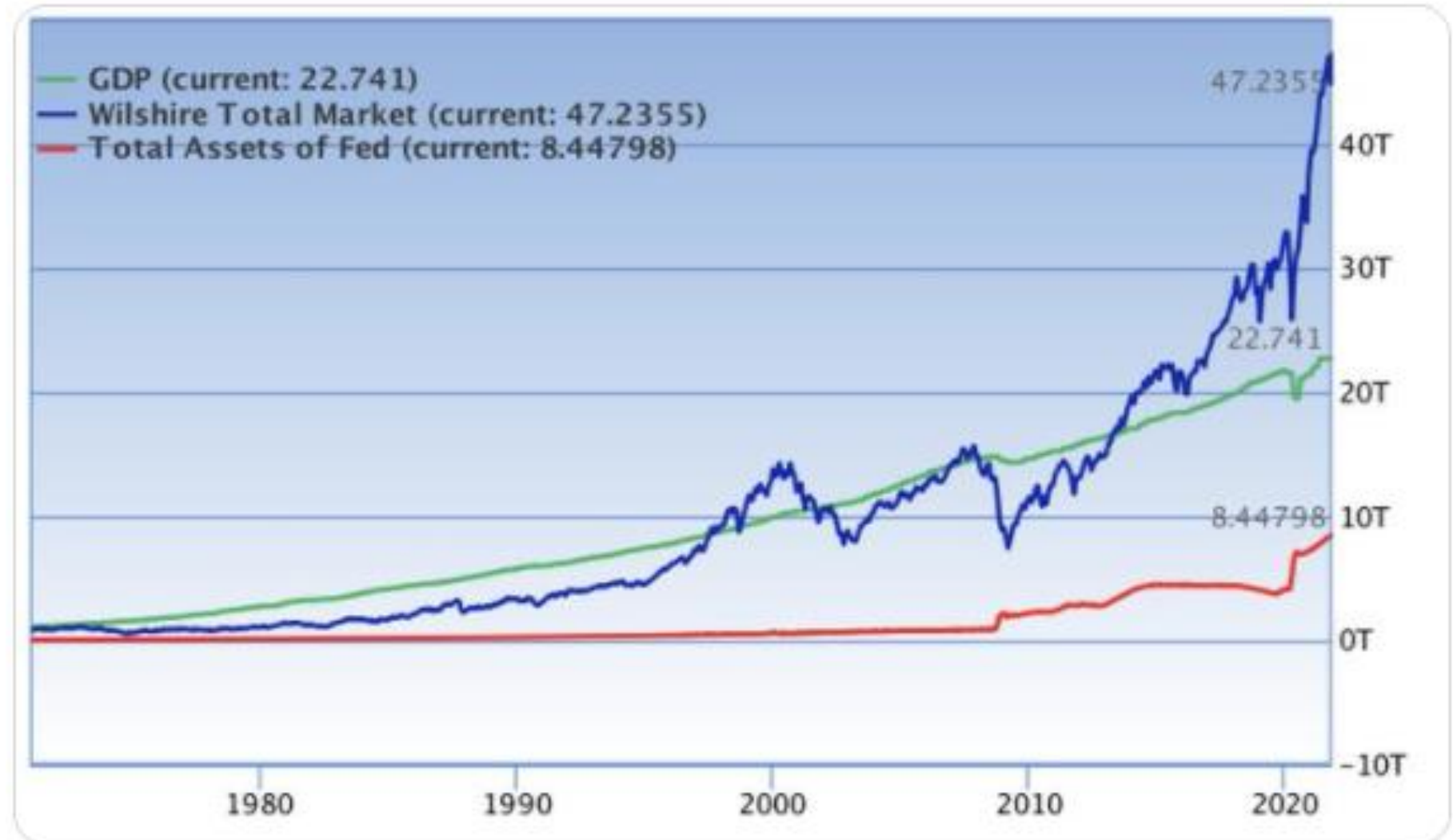
1.1K 95 [Share this Tweet](#)

[Tweet your reply](#)

For the only thing that matters at the end of the day is Fed liquidity which again drove the latest rally:

## Let's zoom in on the numbers

Highest market valuation ever: \$47.23 trillion.  
Widest disconnect from the economy ever: 207.7% market cap vs GDP.





## Tesla is not the problem . . . it just demonstrates the problem



**Sven Henrich** ✓  
@NorthmanTrader



Today **\$TSLA** has gained \$100B in market cap on a \$4B revenue order while Elon Musk has added \$29B to his personal wealth as a result.

Alexa: What part of the cycle are we in?

12:25 PM · Oct 25, 2021



4K



249



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But as long as markets don't mind valuations don't matter.

For participants have caught on by now that the only time markets truly correct on a quarterly time frame is when QE ends somewhere:

- The salesman (the successful salesman) . . . always always tells the truth
- The con man . . . he, always makes stuff up . . . then asks you to believe his fabrications



**VS**



## Why discuss scams and deceptions?

- They've always been with us
- They're here today
- They'll be here tomorrow
- Human nature
- Let's at least admit the truth . . . and attempt to mitigate today's deceptions
- But also . . . some incorrectly believe that the U.S. is safer from scams/deceptions than international
- This is not true . . . as well demonstrated by history



- Charles Ponzi - 1920
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# Bottom line

What's to be done

- **Don't invest on**
  - Past returns
  - Stories
  - Get rich quick schemes
  - Exciting stories (today meme, SPACs, Crypto)
- **Do invest on**
  - Good folk
  - Good organizations
  - Logical approaches
  - No black boxes . . . instead seek flawless transparency
- **Always ask and then adequately answer**
  - **Why does it exist?**
  - **Why will it work?**



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# What will my client earn on their bond portfolio . . .

Why this is important

Friday, November 5<sup>th</sup> at 11:00 a.m. EASTERN

All data and statistics were provided by Global Financial Data, Inc. (unless otherwise indicated in the exhibit)

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